

APPRAISAL INSTITUTE – OFFICE MARKET OVERVIEW

Mid Year 2024



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2023/24 OFFICE TRENDS

- Overall Market is 22.5 million square feet with a little over 1.9 million square feet of vacancy
- Broker into 3 Major markets, Ontario, Riverside, and San Bernardino. Each has a base located at the intersection of two major Interstate Freeways. Ontario I15/I10, Riverside 60/91/I215, and San Bernardino I215/I10.
- Overall Vacancy rate for Office in the IE is **8.92%**, up slightly from 8.62 at the end of 2022. One of the lowest in the top 50 MSA's in the entire country.
- There is ZERO office product under construction or planned. The last significant period of construction in the IE was 2007/8.
- Most Tenants have decided to come back to the office full time, but the office market is still in flux. While many companies have expanded, there have been a few that have embraced the remote work/flex schedules, and several have downsized space.
- 2023 saw negative 87,000 k sf of office space absorption. The Riverside and San Bernardino markets posted positive absorption, but Ontario saw some major users consolidate and downsize.

2023/24 OFFICE TRENDS

- Large blocks of space are in moderate supply. 20 spaces over 20,000 square feet. 11 spaces over 30,000 square feet. Government and healthcare seemed to be the logical groups to absorb large blocks of space.
- The capital markets have been challenging to say the lease. As a result, investment office sales have slowed down dramatically.
- The cost of Tenant Improvements has become a major factor in lease negotiations. TI's prices have risen 200% in the last 36 months mostly due to supply chain constraints.
- The lack of building, rise of TI's and inflation in operating expenses bodes has created an environment where most Landlords are raising lease rates and cutting back concessions such as free rent.
- On the acquisition side, users dominant the office sales. San Bernardino County and University of California both bought high vacancy office properties to house their workforce. User purchases of small buildings have been active due to attractive SBA financing – 10% down
- Small building prices have eclipsed \$400 psf for well located and highly improved properties
- All signs indicate the IE office market will be slow but steady for 2024.

DEFINITIONS

- Class A
 - 3 stories or greater
 - Museum quality finishes
 - Highest rates in the market

- Class B
 - Older Class A buildings
 - Less than 3 stories
 - No major functional obsolescence



DEFINITIONS - CONTINUED

- Class C
 - Older Class B buildings
 - Single-story or wood frame and stucco garden style
 - Office space in multi-tenant

- Small Buildings for Sale
 - New freestanding or condo units
 - Usually tracked as Class C space



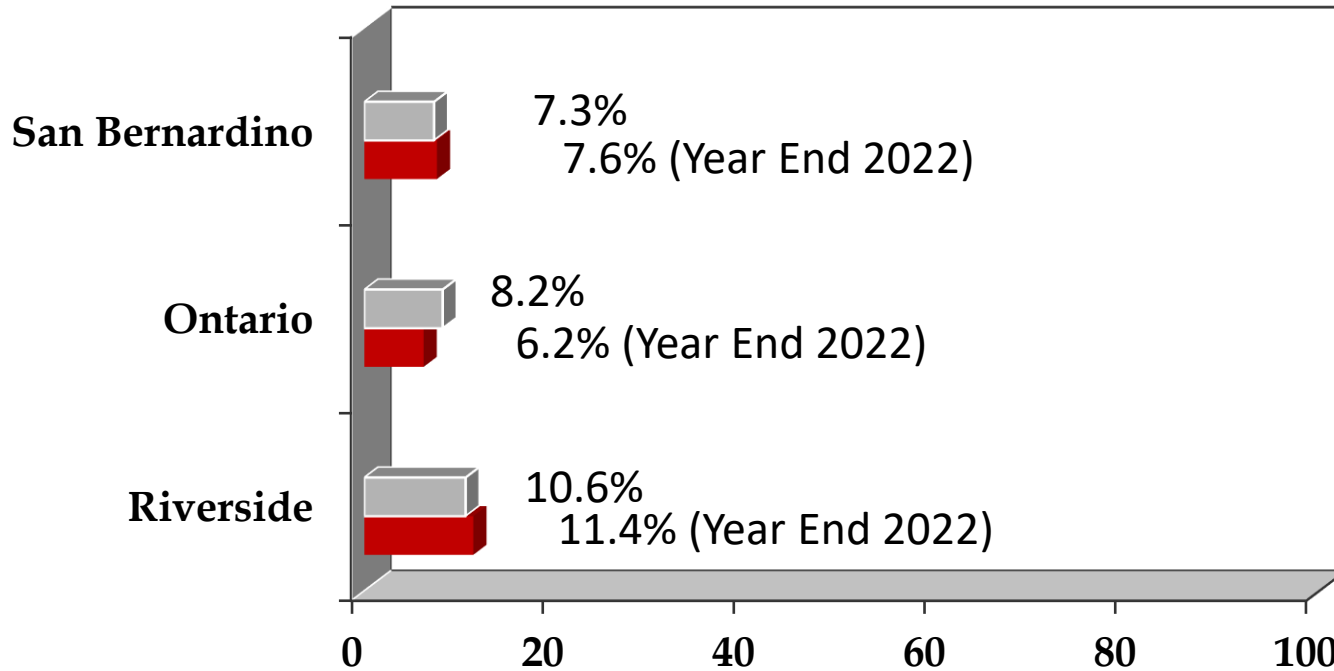
INLAND EMPIRE REGION



22,553,417 Total Square Feet

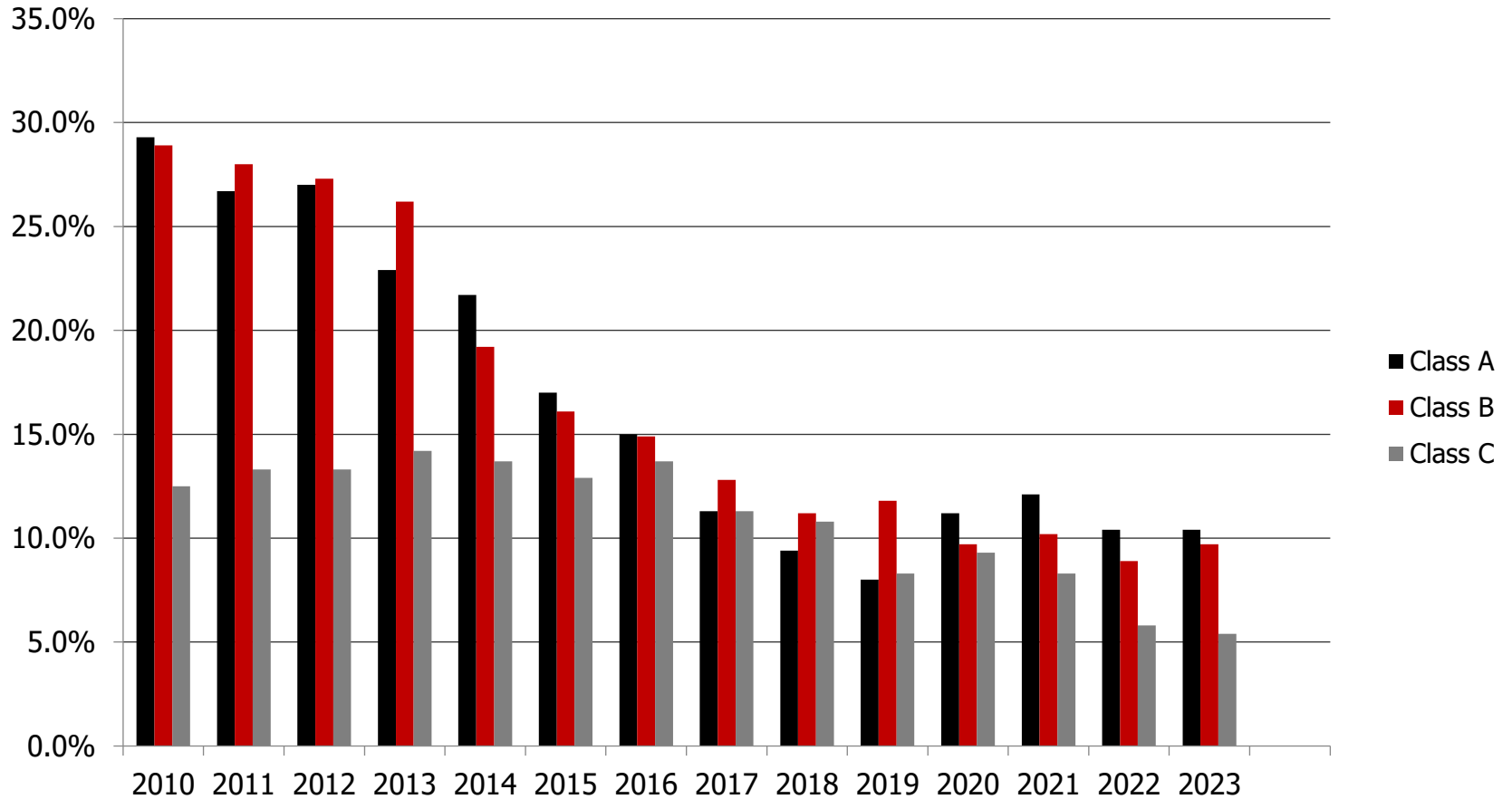
8.92% Vacant

VACANCY BY REGION



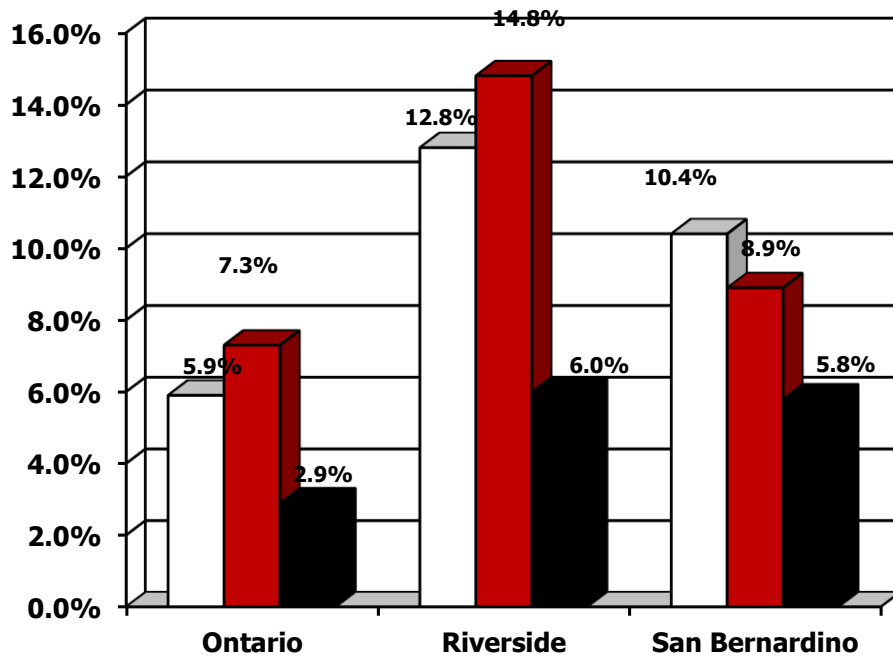
Mid Year 2024 Current Regional Vacancy - 8.85%

VACANCY RATE BY CLASS

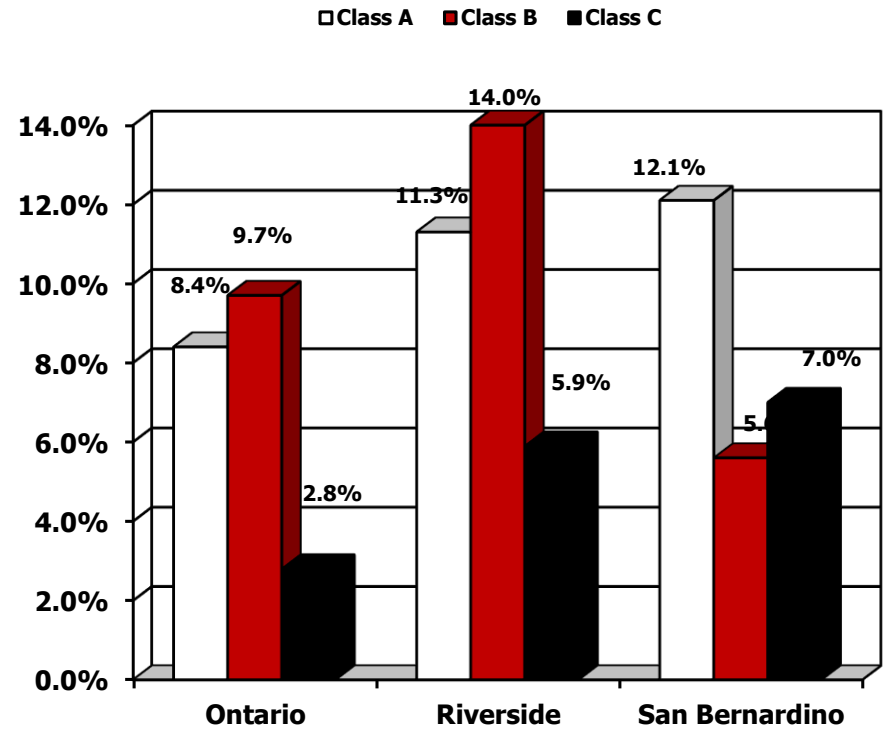


VACANCY RATE BY MAJOR MARKET AND BUILDING CLASS

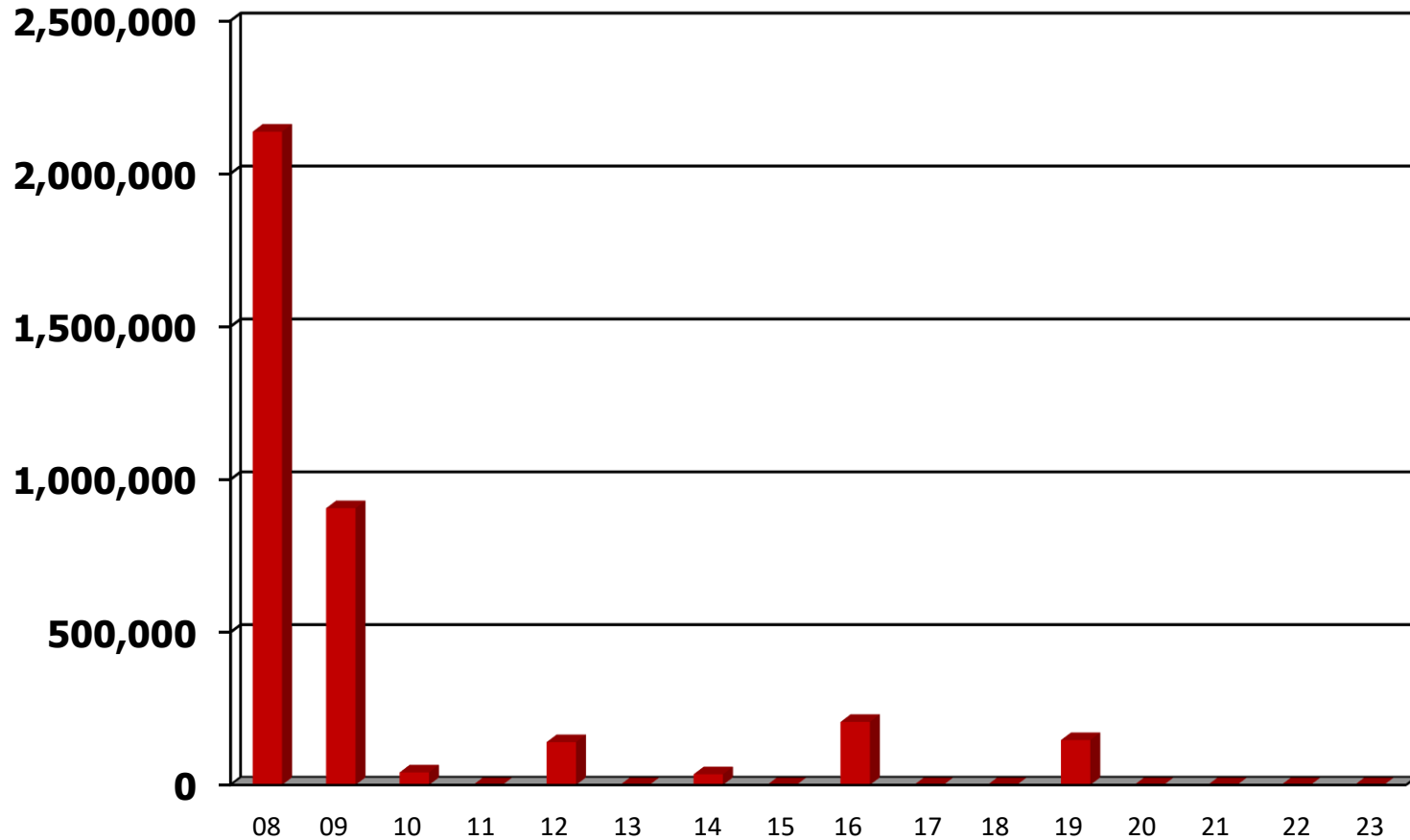
YEAR END 2022



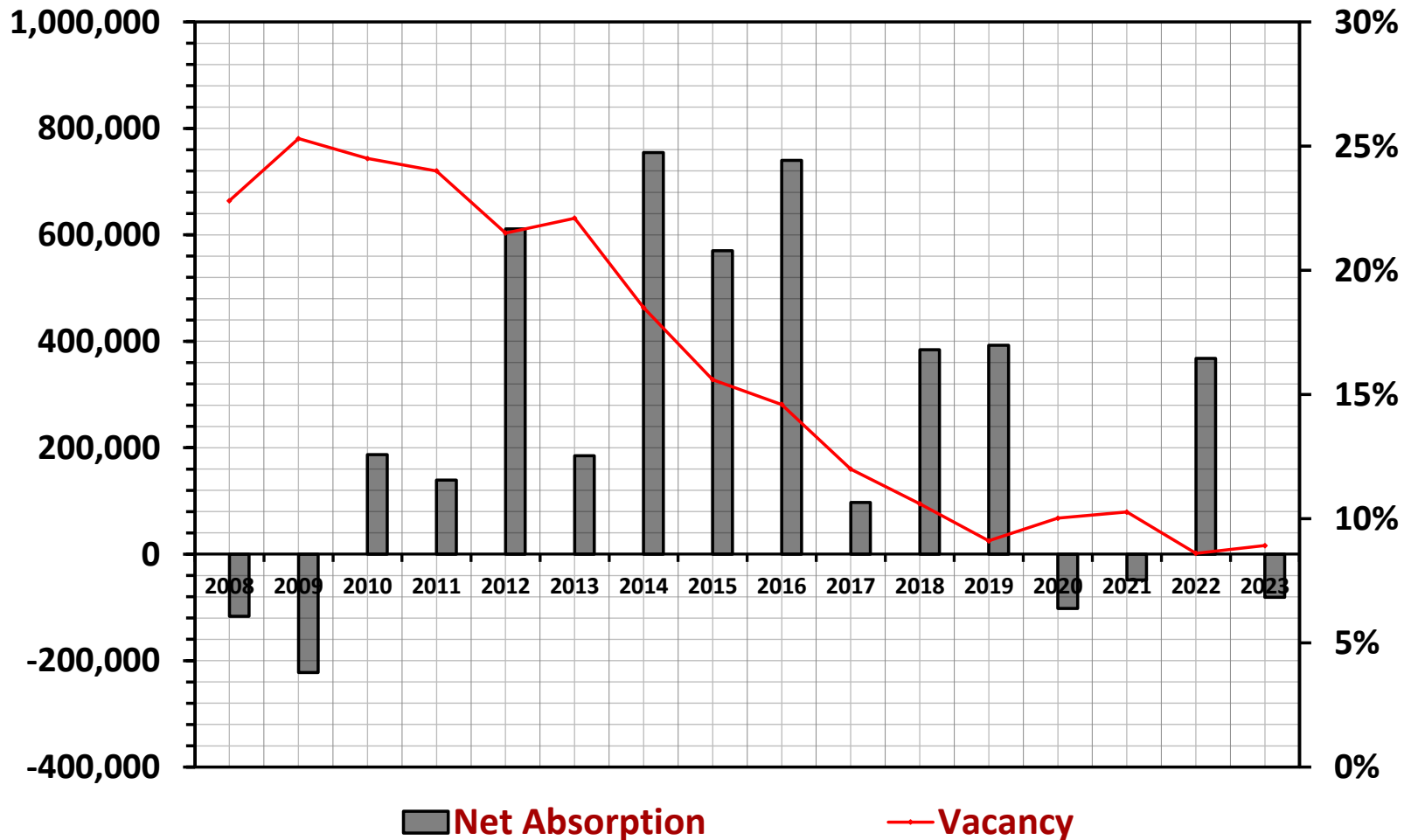
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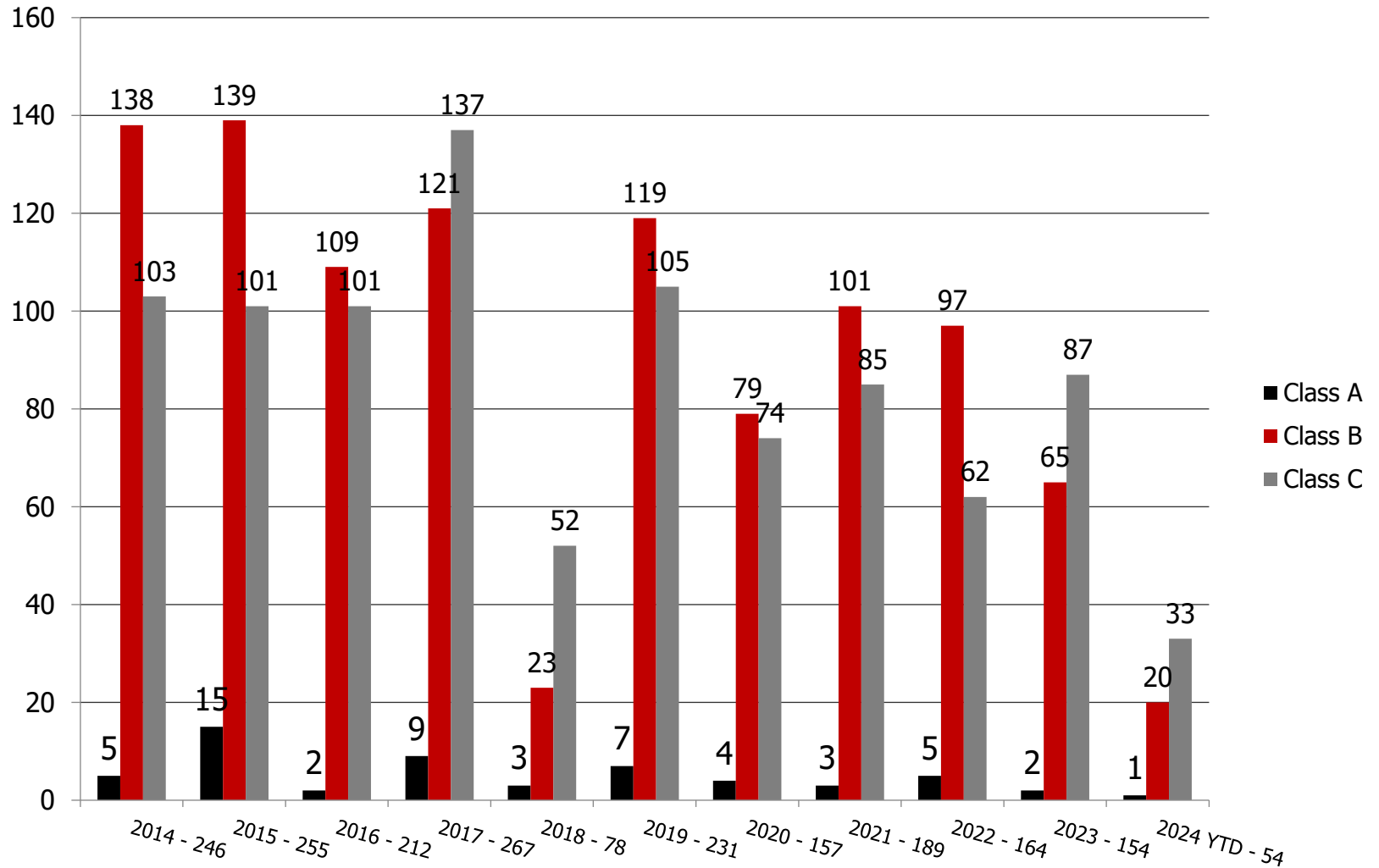
OFFICE CONSTRUCTION (COMPLETED SINCE 2008)



VACANCY AND ABSORPTION TREND ANALYSIS



BUILDING SALES BY CLASS



LARGE LEASE COMPS

TENANT	BUILDING	SF	LEASE TERM	LEASE RATE	TIs
SoCal Edison	1209 Nevada St.	45,000	39	\$1.85 FSG	\$0.00
LERETA, LLC	Empire Corporate Plaza	41,555	63	\$2.35 FSG	\$0.00
County of San Bernardino	Tri-City Corporate Centre	29,582	132	\$2.50 FSG	\$0.00
Stanbridge University	Spruce Street Professional Building	27,305	36	\$1.90 FSG	\$15.00
Community Health Systems, Inc.	Mission Grove Corporate	24,807	120	\$2.35 MGR	\$70.00
Lennar Home of California	Lakeshore Plaza	21,058	84	\$2.35 FSG	\$0.00
RGN Riverside, LLC	Turner Riverwalk Phase III	20,446	72	\$2.43 FSG	\$0.00
Ticor Title Company of California	Turner Riverwalk Phase V	19,475	72	\$2.60 MGR	\$30.00
General Services Administration (US of A)	Lakeshore Plaza	18,312	180	\$3.39 FSG	\$0.00
Varner & Brandt	Mission Square	15,620	72	\$2.41 NNN	\$0.00
Prime-Line Products, LLC	Redlands Corporate Plaza	12,305	63	\$1.95 FSG	\$0.00
Bank of America	Riverside Gateway	11,994	66	\$2.38 FSG	\$0.00

SALES COMP

VANDERBILT PLAZA



451 E Vanderbilt Way, San Bernardino, CA 92408

- Sale Price: **\$26,750,000**
- Price/SF: \$231.56
- Buyer: County of San Bernardino
- Seller: Tri-City Property, LLC

SBCREA



412 W Hospitality Lane, San Bernardino, CA 92415

- Sale Price: **\$9,800,000**
- Price/SF: **\$190.62**
- Owner/User
- Buyer: County of San Bernardino
- Seller: Vanderbilt Property, LLC

SALES COMP

4150 CONCOURS ST.



4150 Concours Street, Ontario, CA 91764

- Sale Price: **\$9,700,000**
- Price/SF: **\$242.50**
- Owner/User
- Buyer: Frist Citizens Bank & Trust
- Seller: Concourse Buildings, LLC

STEWART PLAZA



400 N Mountain Avenue, Upland, CA 91786

- Sale Price: **\$9,000,000**
- Price/SF: **\$188.09**
- Owner/User
- Buyer: Upland Mountain Properties, LLC
- Seller: The Megellan Group, Inc.

SALES COMP

4550 ONTARIO MILLS PKWY



4550 Ontario Mills Parkway, Ontario, CA 91764

- Sale Price: **\$6,525,000**
- Price/SF: **\$248.98**
- Owner/User
- Buyer: Exceisior Charter Group
- Seller: Myra Properties, LLC

PALM PLAZA



2068 Orange Tree Lane, Redlands, CA 92374

- Sale Price: **\$6,050,000**
- Price/SF: **\$166.44**
- Owner/User
- Buyer: Soren McAdam Christenson LLP
- Seller: Carat, LLC

FORECAST 2024 – WHAT’S AHEAD?

- Office activity will remain slow and steady..
- Bank lending will determine sales volume and have a major influence on value.
- Users that buy will reap the benefit of reduced long term occupancy costs buying well below replacement costs.
- Rising costs due to inflation and high interest rates and the perception of the end of the office building will stall any thoughts of office development
- TI’s remain the biggest issue to leasing. Well capitalized Landlords will get the deals
- Class A Property values should increase especially in the West Markets as opportunities diminish and higher lease rates factor into rent rolls
- Value add opportunities are still available through repositioning of use/updating dated properties etc
- SBA is still flush with cash for small businesses looking to own. User sales will be the bulk of office sales in 2024.

QUESTIONS?

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